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THE OMBUDSMAN

FINANCIAL STATMENTS

FOR THE YEAR ENDED

31ST MARCH 2008

Independent auditor's report to The Ombudsman

(Established in Hong Kong pursuant to The Ombudsman Ordinance)

We have audited the financial statements of The Ombudsman set out on pages 3 to 15, which comprise the balance sheet as at 31 March 2008, and the statement of income and expenditure, the statement of changes in funds and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The Ombudsman's Responsibility for the Financial Statements

The Ombudsman is responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by The Ombudsman, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Independent auditor's report to The Ombudsman (continued)

(Established in Hong Kong pursuant to The Ombudsman Ordinance)

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of The Ombudsman as at 31 March 2008 and of its surplus and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

23 May 2008

Statement of income and expenditure for the year ended 31 March 2008

(Expressed in Hong Kong dollars)

	Note	2008	2007
Income			
Government subventions	7	$ 81,652,442	$ 81,368,258
Amortisation of Government subventions	7	2,965,040	3,103,587
Interest income on bank deposits		10,170,894	8,987,647
Other income		11,594	3,051
		$ 94,799,970	$ 93,462,543
Expenditure			
Operating expenses	9	(65,617,386)	(57,820,476)
Surplus for the year		$ 29,182,584	$ 35,642,067

Statement of changes in funds for the year ended 31 March 2008

The surplus in the statement of income and expenditure is the only change in net funds for the current and prior years.

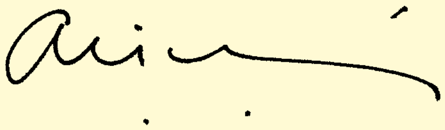
The notes on pages 6 to 15 form part of these financial statements.

Balance sheet as at 31 March 2008

(Expressed in Hong Kong dollars)

	Note	*2008*	*2007*
ASSETS			
Non-current assets			
Property, plant and equipment	5	$ 20,998,597	$ 22,069,333
Prepaid operating lease	4	66,413,516	67,807,736
		$ 87,412,113	$ 89,877,069
Current assets			
Deposits and prepayments		$ 793,267	$ 613,828
Interest receivable		4,490,898	3,774,541
Time deposits with maturity over three months		224,206,000	192,914,000
Cash and cash equivalents	6	4,343,179	5,225,844
		$ 233,833,344	$ 202,528,213
Total assets		$ 321,245,457	$ 292,405,282
LIABILITIES			
Non-current liabilities			
Contract gratuity payable - non-current	8	$ 3,381,877	$ 2,380,059
Government subventions - non-current	7	82,807,477	85,768,433
		$ 86,189,354	$ 88,148,492
Current liabilities			
Other payables and accruals		$ 3,675,939	$ 1,295,553
Contract gratuity payable - current	8	3,018,312	3,777,885
Government subventions - current	7	2,965,044	2,969,128
		$ 9,659,295	$ 8,042,566
Total liabilities		$ 95,848,649	$ 96,191,058
FUNDS			
Accumulated funds		$ 225,396,808	$ 196,214,224
Total funds and liabilities		$ 321,245,457	$ 292,405,282

Approved and authorised for issue by The Ombudsman on 23 May 2008



) The Ombudsman

The notes on pages 6 to 15 form part of these financial statements.

Cash flow statement for the year ended 31 March 2008

(Expressed in Hong Kong dollars)

	Note	*2008*	*2007*
Operating activities			
Surplus for the year		$ 29,182,584	$ 35,642,067
Adjustments for:			
- Interest income		(10,170,894)	(8,987,647)
- Depreciation		1,932,915	1,833,463
- Amortisation of prepaid operating lease		1,394,220	1,394,220
- Amortisation of Government subventions		(2,965,040)	(3,103,587)
Operating surplus before changes in working capital		$ 19,373,785	$ 26,778,516
(Increase)/decrease in deposits and prepayments		(179,439)	104,622
Increase in other payables and accruals		2,380,386	111,771
Increase/(decrease) in contract gratuity payable		242,245	(1,695,026)
Net cash generated from operating activities		$ 21,816,977	$ 25,299,883
Investing activities			
Interest received		$ 9,454,537	$ 6,632,217
Purchase of property, plant and equipment		(862,179)	(981,431)
Increase in bank deposits with original maturity over 3 months		(31,292,000)	(51,745,484)
Net cash used in investing activities		$ (22,699,642)	$ (46,094,698)
Decrease in cash and cash equivalents		$ (882,665)	$ (20,794,815)
Cash and cash equivalents at beginning of the year	6	5,225,844	26,020,659
Cash and cash equivalents at end of the year	6	$ 4,343,179	$ 5,225,844

The notes on pages 6 to 15 form part of these financial statements.

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Status of The Ombudsman

The Ombudsman was established as a corporation sole by statute on 19 December 2001. The functions of The Ombudsman are prescribed by the Ombudsman Ordinance.

The address of its registered office is 30/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

2 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong. A summary of the significant accounting policies adopted by The Ombudsman is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of The Ombudsman. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to The Ombudsman for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenditure. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

2 Significant accounting policies (continued)

(b) Basis of preparation of the financial statements (continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Property, plant and equipment and depreciation

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(e)).

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Leasehold improvements	10 years
Building	40 years
Office equipment	5 years
Office furniture	5 years
Computer equipment	4 years
Motor vehicles	5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the statement of income and expenditure on the date of retirement of disposal.

(d) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Payments made under operating leases net of any incentives received from the lessor are charged to the statement of income and expenditure on a straight-line basis over the accounting periods covered by the lease term.

(e) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the property, plant and equipment may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

2 Significant accounting policies (continued)

(e) Impairment of assets (continued)

If any such indication exists, the property, plant and equipment's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of a property, plant and equipment is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where a fixed asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the statement of income and expenditure in the year in which the reversals are recognised.

(f) Other payable and accruals

Other payable and accruals are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(g) Employee benefits

Salaries, gratuities, performance pay, paid annual leave, leave passage and the cost to The Ombudsman of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of The Ombudsman. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are recognised as an expense in the statement of income and expenditure as incurred.

2 Significant accounting policies (continued)

(h) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when The Ombudsman has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(i) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and The Ombudsman will comply with attached conditions.

Government grants relating to costs are deferred and recognised in the statement of income and expenditure over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government subventions and are credited to the statement of income and expenditure on a straight-line basis over the expected lives of the related assets.

(j) Income recognition

Provided it is probable that the economic benefits will flow to The Ombudsman and the income and expenditure, if applicable, can be measured reliably, income is recognised in the statement of income and expenditure as follows:

(i) Government subventions

Government subventions are accounted for on an accrual basis in accordance with note 2(i).

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iii) Other income

Other income is recognised on an accrual basis.

2 Significant accounting policies (continued)

(k) Related parties

For the purposes of these financial statements, a party is considered to be related to The Ombudsman if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control The Ombudsman or exercise significant influence over The Ombudsman in making financial and operating policy decisions, or has joint control over The Ombudsman;

(ii) The Ombudsman and the party are subject to common control;

(iii) the party is a member of key management personnel of The Ombudsman or The Ombudsman's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(iv) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(v) the party is a post-employment benefit plan which is for the benefit of employees of The Ombudsman or of any entity that is a related party of The Ombudsman.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

3 Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of The Ombudsman.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, "Financial instruments: Disclosures" and the amendment to HKAS 1, "Presentation of financial statements: Capital disclosures", there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, "Financial instruments: Disclosure and presentation". These disclosures are provided throughout these financial statements, in particular in note 15.

3 Changes in accounting policies (continued)

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and The Ombudsman's objectives, policies and processes for managing capital. These new disclosures are set out in note 14.

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Ombudsman has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 16).

4 Prepaid operating leases

The Ombudsman's interests in leasehold land represent prepaid operating lease payments and their net book values are analysed as follows:

	2008	*2007*
In Hong Kong held on		
- Leases of over 50 years	$ 66,413,516	$ 67,807,736
	==================	==================

5 Property, plant and equipment

	Building	Leasehold Improvements	Office Furniture	Office equipment	Computer equipment	Motor vehicles	Total
Cost:							
At 1 April 2006	$ 16,800,000	$ 11,160,680	$ 4,461	$ 160,651	$ 101,847	$ 1	$ 28,227,640
Price adjustment (Note)	-	388,400	-	-	-	-	388,400
Additions	-	-	6,910	20,666	953,855	-	981,431
At 31 March 2007	$ 16,800,000	$ 11,549,080	$ 11,371	$ 181,317	$ 1,055,702	$ 1	$ 29,597,471
Accumulated Depreciation:							
At 1 April 2006	$ 1,702,438	$ 3,969,526	$ 42	$ 10,605	$ 12,064	$ -	$ 5,694,675
Depreciation	420,000	1,293,455	1,358	33,818	84,832	-	1,833,463
At 31 March 2007	$ 2,122,438	$ 5,262,981	$ 1,400	$ 44,423	$ 96,896	$ -	$ 7,528,138
Net Book Value:							
At 31 March 2007	$ 14,677,562	$ 6,286,099	$ 9,971	$ 136,894	$ 958,806	$ 1	$ 22,069,333

	Building	Leasehold Improvements	Office Furniture	Office equipment	Computer equipment	Motor vehicles	Total
Cost:							
At 1 April 2007	$ 16,800,000	$ 11,549,080	$ 11,371	$ 181,317	$ 1,055,702	$ 1	$ 29,597,471
Additions	-	-	60,452	331,214	470,513	-	862,179
At 31 March 2008	$ 16,800,000	$ 11,549,080	$ 71,823	$ 512,531	$ 1,526,215	$ 1	$ 30,459,650
Accumulated Depreciation:							
At 1 April 2007	$ 2,122,438	$ 5,262,981	$ 1,400	$ 44,423	$ 96,896	$ -	$ 7,528,138
Depreciation	420,000	1,154,908	6,863	54,478	296,666	-	1,932,915
At 31 March 2008	$ 2,542,438	$ 6,417,889	$ 8,263	$ 98,901	$ 393,562	$ -	$ 9,461,053
Net Book Value:							
At 31 March 2008	$ 14,257,562	$ 5,131,191	$ 63,560	$ 413,630	$ 1,132,653	$ 1	$ 20,998,597

Note: During the year ended 31 March 2007, the costs incurred for leasehold improvements were finalised between the supplier and the Government. Accordingly, The Ombudsman, by reference to the costs finalised by the Architectural Services Department of Government, has made a price adjustment to reflect revised costs.

6 Cash and cash equivalents

		2008		2007
Cash at bank	$	4,338,179	$	5,220,844
Cash in hand		5,000		5,000
	$	4,343,179	$	5,225,844

7 Government subventions

The amounts represent the funds granted by the Government for prepaid operating lease payments, the purchase of buildings and certain leasehold improvements. Subvention income is recognised on a straight line basis over the period of the lease term or the useful life of the assets, which are estimated to be 54 years, 40 years and 10 years, respectively.

		2008		2007
Government subventions	$	85,772,521	$	88,737,561
Current portion of government subventions		(2,965,044)		(2,969,128)
	$	82,807,477	$	85,768,433

8 Contract gratuity payable

The amount represents the gratuity payable to staff on expiry of their employment contract. The amount of gratuity ranges from 10% to 25% of the basic salary less employer's contributions to Mandatory Provident Fund.

9 Operating expenses

		2008		2007
Auditor's remuneration	$	42,000	$	41,000
Amortisation of prepaid operating lease		1,394,220		1,394,220
Depreciation of property, plant and equipment		1,932,915		1,833,463
Employee benefit expense (Note 10)		54,766,024		46,614,281
Announcement of public interest expense		2,376,627		3,005,195
Operating lease rentals in respect of parking spaces		91,200		91,200
Rates and management fee		1,887,727		1,842,937
Other expenses		3,126,673		2,998,180
Total	$	65,617,386	$	57,820,476

10 Employee benefit expense

	2008	*2007*
Salaries and allowances	$ 47,685,656	$ 40,324,764
Contract gratuity	4,999,970	4,568,018
Pension costs - MPF scheme	1,008,457	870,589
Unutilised annual leave	274,849	179,210
Other employee benefit expenses	797,092	671,700
	$ 54,766,024	$ 46,614,281

11 Key management compensation

	2008	*2007*
Short-term employee benefits	$ 10,908,063	$ 9,917,207
Post-employment benefits	1,485,201	1,450,670
	$ 12,393,264	$ 11,367,877

12 Taxation

The Ombudsman is exempt from taxation in respect of the Inland Revenue Ordinance in accordance with the Schedule 1A Section 5(1) of the Ombudsman Ordinance.

13 Commitments under operating leases

At 31 March, the total future aggregate minimum lease payments under non-cancellable operating leases in respect of parking spaces are payable as follows:

	2008	*2007*
Within 1 year	$ 7,600	$ 7,600

14 Management of accumulated funds

The Ombudsman's primary objectives when managing its accumulated funds are to safeguard The Ombudsman's ability to continue as a going concern. The Ombudsman is not subject to externally imposed requirements relating to its accumulated funds.

15 Financial instruments

Risk management is carried out by the accounting department under policies approved by The Ombudsman. The accounting department identifies and evaluates financial risks in close co-operation with the operating units. The Ombudsman provides written principles for overall risk management such as interest-rate risk, use of financial instruments and investing excess liquidity.

The Ombudsman's activities do not expose it to foreign exchange risk, credit risk and liquidity risk. For interest-rate risk, except for the short-term bank deposits which bear interest at market rates, The Ombudsman has no other significant interest-bearing assets and liabilities. Accordingly, The Ombudsman's income and operating cash flows are substantially independent of changes in market interest rates and the exposure to cash flow and fair value interest rate risk is low.

Sensitivity analysis on interest rate risk

At 31 March 2008, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease. The Ombudsman's income and accumulated funds by approximately $2,242,000 (2007: $1,929,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2007.

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2008 and 2007.

16 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2008

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2008 and which have not been adopted in these financial statements.

The Ombudsman is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on The Ombudsman's results of operations and financial position.